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August 27, 1997

VIA HAND DELIVERY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

RECEIVED
AUG 27 1997
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket No. 97-149
Direct Case of Roseville Telephone Company

Dear Mr. Caton:

In compliance with the requirements of the Commission's Order Designating Issues for Investigation, Memorandum Opinion and Order on Reconsideration, CC Docket No. 97-149, DA 97-149, released July 28, 1997, Roseville Telephone Company, by its attorneys, hereby files an original and six copies of its Direct Case.

If there are any questions regarding this matter, please contact me.

Very truly yours,

Paul J. Feldman
Counsel for
Roseville Telephone Company

PJF/jr
Enclosures
cc: Mr. Greg Gierczak (w/encl.)

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
1997 Annual Access	)	CC Docket No. 97-149
Tariff Filings	)	

To: Chief, Competitive Pricing Division, Common Carrier Bureau

DIRECT CASE OF
ROSEVILLE TELEPHONE COMPANY

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August 27, 1997

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Executive Summary

Roseville Telephone Company ("Roseville") submits this Direct Case in response to the Commission's Order Designating Issues for Investigation Memorandum Opinion and Order on Reconsideration in the 1997 Annual Access Tariff proceeding, DA 97-149, released July 28, 1997 (the "Designation Order"). In that Order, the Commission designated an issue to investigate the lawfulness of Roseville's proposed requirements for cash working capital ("CWC"). As shown below, Roseville's CWC requirements have been properly calculated consistently with applicable Commission requirements and should be upheld.

In the instant case, Roseville performed a full lead lag CWC study, as permitted by Section 65.820(d) of the Commission's Rules. Analyzing the overall study period of the twelve months ended December 1994, Roseville found a net lag in receipt of jurisdictional revenues of 49 days. This study was based on Roseville's specific operating experience, with elimination, via the analytical process, of abnormal or extraordinary conditions which could have had unusual positive or negative impacts upon Roseville's calculated CWC needs. Roseville's calculated CWC needs for the study period of calendar 1994 (1) were accurately calculated, (2) are normal and representative for that period, and (3) are normal and representative for the test period in this proceeding (the twelve months beginning July 1, 1997).

Roseville therefore submits that its CWC requirement is reasonable and proper and should be upheld.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
1997 Annual Access	)	CC Docket No. 97-149
Tariff Filings	)	

To: Chief, Competitive Pricing Division, Common Carrier Bureau

DIRECT CASE OF
ROSEVILLE TELEPHONE COMPANY

Roseville Telephone Company ("Roseville"), hereby submits its Direct Case in response to the Commission's Order Designating Issues for Investigation Memorandum Opinion and Order on Reconsideration in the 1997 Annual Access Tariff proceeding, DA 97-149, released July 28, 1997 (the "Designation Order"). In that Order, the Commission designated the issue of the lawfulness of Roseville's proposed requirement for cash working capital (CWC). As shown below, Roseville respectfully submits that its CWC requirements have been properly calculated consistently with applicable Commission requirements and should be upheld.

I. Background

The rates under investigation in this proceeding are Roseville's revised traffic sensitive switched and special access rates, filed June 23, 1997 in Transmittal No. 52, with an effective date of July 8, 1997. In its tariff transmittal, Roseville provided to the Commission cost support information and a Tariff Review Plan, complying fully with applicable regulatory requirements.

On June 27, 1997, AT&T, Inc. (AT&T) petitioned the Commission to reject, or suspend and investigate, Roseville's annual access tariff charge filing on the basis of AT&T's assertion that Roseville had "again overstated" its CWC requirements. AT&T Petition, p. 1. AT&T asserted that the net lag for Roseville's 1997 access filing was 62.3 days rather than the 49 days supported by Roseville. AT&T contended that Roseville should have employed the "standard" 15 day lag period recently applied in the Commission's analysis of Roseville's 1993 annual access tariff filings,[1] and requested that the Commission direct Roseville to recalculate its revenue requirements using the "standard" 15 day net lag period. AT&T Petition, pp. 2-3

In its Reply, Roseville challenged AT&T's calculations, noting that AT&T erroneously had looked at expenses and taxes after the addition of CWC to rate base resulting in AT&T's calculating the tax effect on the net return related to CWC twice. Roseville also showed that AT&T had improperly excluded billing and collection and interexchange services from the total interstate figures from Column B in Roseville's filing, and that in calculating Roseville's revenue requirement, AT&T had improperly included CWC associated with common line expenses. Correcting these errors, Roseville demonstrated that its net lag is 49 days. Roseville Reply, pp. 2-3.

In its Reply, Roseville also observed that its decision to base its CWC requirements on the results of a company-specific lead lag study instead of employing the "standard" 15 day net lag advocated by AT&T was lawful under the Commission's rules. The Commission

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[1] In the Matter of 1993 Annual Access Tariff Filings, CC Docket No. 93-193, Phase I, Part 2, FCC 97-139, released April 17, 1997, paras. 67-70, 107, 110 ("1993 Access Tariff Order").

has itself recognized that "lead lag studies [are] likely to produce the most accurate assessments of cash working capital needs." Roseville Reply, p. 4, citing Rate Base Component Order, 3 FCC Rcd 269, 279 (1987).

By Order, DA 97-1413, released July 7, 1997 ("Suspension Order"), the Chief, Competitive Pricing Division, Common Carrier Bureau suspended Roseville's annual access tariff filing for one day, imposed an accounting order, and initiated an investigation into the lawfulness of Roseville's proposed CWC. The Commission's Staff based its decision to suspend and investigate on the fact that the Commission "had previously recognized a 15-day lag period as an acceptable standard for calculating CWC for Class B carriers," and that, just ten days before, the Common Carrier Bureau had suspended and initiated for investigation the annual access tariff of a number of other Class B carriers with net lags that appeared to exceed 15 days.[2]

In the Designation Order, the Chief, Competitive Pricing Division set for investigation the access tariffs of Roseville and other local exchange carriers (LECs) which either (1) had not provided a lead lag study and calculated a net lag period that appeared to exceed 15 days; or (2) had conducted a lead lag study and calculated a net lag period "significantly above the industry average." Designation Order at para. 63. In the case of Roseville, the Staff determined that the Company's proposed CWC calculations resulted in a net lag of 49 days, and not 62.3 days as AT&T had asserted, but concluded that Roseville's proposed CWC calculations nevertheless "resulted in a net lag period that exceeded the

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[2] Suspension Order, para. 6, citing Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Base and Net Income of Dominant Carriers, CC Docket No. 86-497, Order on Reconsideration, 4 FCC Rcd 1697 (1989) ("Rate Base Component Reconsideration Order").

industry average." Id. The Designation Order directed Roseville to present a direct case in support of its tariff filing, including in this submission its lead lag study and a full explanation of "any category of revenue with a lag in excess of 45 days and any category of expense with a lag in excess of 30 days." Id. at paras 64, 66.

II. Roseville's Calculation of its CWC Requirements Should be Upheld

In its Designation Order, the Commission's Staff has concluded that Roseville's 1997 annual access tariff raises questions of lawfulness because "Roseville's proposed cash working capital calculations resulted in a net lag period that exceeded the industry average." Designation Order at para. 63. Although the Order does not explicitly say so, it would appear that the Commission's Staff considers this "industry average" to be 15 days, an alternative allowance adopted by the Commission in 1989 in respect of Class A carriers, since the Staff elsewhere in the Designation Order rescinded its previous decision to investigate the tariffs of other Class B carriers whose net lags were "close to 15 days." Id. See also Suspension Order, para. 6. The designation of Roseville's tariff for investigation on this ground, however, lacks legal foundation, since the Commission has never determined the "industry average" for Class B carriers such as Roseville, or conditioned the acceptability of lead lag studies on whether such studies yield an outcome identical to an "industry average," whatever figure that may be. Roseville submits that the record in this proceeding, including the Company's Direct Case, shows that Roseville's calculation of its CWC requirements is reasonable and proper and that it complies fully with applicable Commission requirements and should be upheld.

Pursuant to Section 65.820(d) of the Commission's rules, Class B carriers including Roseville may demonstrate their CWC requirements in one of three ways:

- Lead Lag Study. Carriers may calculate the CWC allowance by performing a full lead lag study which measures interstate revenues and expenses relative to the midpoint of a study period.
- Simplified Lead Lag Study. Carriers may calculate the CWC allowance by using a less detailed calculation of cash work capital allowance as set forth in Section 65.820(e) of the Commission"s rules.
- Standard Allowance Method. Class B Carriers may calculate the cash working capital allowance using an allowance established annually by the Chief, Common Carrier Bureau.

Once a carrier has selected a method of determining its CWC allowance, it may not change to an optional method from one year to the next without Commission approval. 47 C.F.R. § 65.820(d). Roseville has selected the full lead lag study method every year that it has made an interstate access tariff filing.

Of these three alternatives, the Commission has made clear that "properly developed lead-lag studies are the most appropriate method for determining the interstate cash working capital requirement," Rate Base Component Order, 3 FCC Rcd at 279, since this method analyzes an individual company's operations and need for CWC in detail. While the Commission has allowed Class B carriers to use the simplified formula method or standard allowance method instead, it has done so only to relieve those carriers of the burdens associated with performing full lead lag studies. Id. and Rate Base Component Reconsideration Order, 4 FCC Rcd at 1698. Nothing in those rulings, however, undercuts the presumption that a lead lag study is a more accurate representation of a company's

cash working capital requirement as it is based on a company's actual operating experience.

The Commission's staff, in its Designation Order, appears to believe that any lead lag study that produces a net lag in excess of 15 days should be investigated. Contrary to the implication of the Staff's ruling, however, the Commission has never identified an "industry average" for net lag periods for Class B carriers such as Roseville, or for LECs in general. The 15 day standard allowance cited by the Staff was adopted in 1989 as "an appropriate standard for the present," for the Standard Allowance Method only, based on its analysis of the CWC requirements contained in the 1988 Tariff Review Plans of Class A Carriers. Rate Base Component Reconsideration Order, pp. 1698 and 1708 n. 18. Until the Designation Order, the Commission has never, to Roseville's knowledge, referred to this standard allowance as an "industry average." Nor has the Commission, to Roseville's knowledge, ever in the past eight years attempted to ascertain the "industry average" net lag period for Class B carriers, or for LECs in general. In short, the "industry standard" cited by the Staff is one which the agency has never identified and has never tried to pinpoint for Class B carriers specifically.[3]

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[3] Roseville respectfully submits that the "industry average" net lag period for Class B carriers is likely to be longer than that of Class A carriers given Class B carriers' participation in the NECA Pools and Class B carrier's critical dependence on the maintenance of higher credit ratings such as Dunn & Bradstreet's Paydex Score, in order to acquire funds as needed for the payment of expenses. It also is likely to have changed over the past eight years given the decreasing interexchange market share of AT&T and resulting increase in Class B revenue dependence upon other common carriers whose payment history is radically different from that of AT&T. In any event, an "industry average" is, by definition, only an average among a multitude of companies and assumes that most companies will, to a greater or lesser degree, deviate from that average. Such deviation is inevitable and simply reflects the individual net lag experience of the individual company -- not, as the Commission seems to suggest, an unlawful course of conduct.

The Designation Order wrongly assumes that deviation from such "industry average" or from the 15 day standard allowance constitutes a prima facie showing that Roseville's CWC was calculated in an unlawful or incorrect manner. As noted above, the 15 day standard allowance is only one of three alternative methods by which Class B carriers may calculate their CWC requirements, in accordance with the Commission's rules. The preferred method, in the Commission's own judgment, is a lead lag study, and where the carrier believes that formulas or the "standard" allowance insufficiently reflect its own operating experience, the Commission has encouraged carriers to perform lead lag studies. For the lead lag study alternative to have any meaning, however, the Commission must be prepared to accept net lag periods which accurately reflect a company's operating experience but differ from the "standard." This is, after all, the whole purpose of allowing carriers to support their CWC requirements through a lead lag study rather than by defaulting to a "standard allowance" which does not accurately reflect their own actual experience. We respectfully submit that the Staff should not automatically assume that a study supporting a greater net lag than 15 days is invalid.

In sum, the Commission recognizes in its Rate Base Component Order, 3 FCC Rcd at 279 (1989) that a lead lag study provides the most accurate assessment of cash working capital needs as it takes an individual company's actual operating experience into account in detail. In the initial case, Roseville performed its own lead lag study, as Section 65.820(d) of the rules permits. This study accurately reflects Roseville's actual operating experience. The study produced a CWC requirement for the test period in this proceeding that is representative of Roseville's CWC needs on an ongoing basis. Roseville's calculated CWC requirement in this proceeding is therefore proper and should be upheld.

III. Roseville's Lead Lag Cash Working Capital Analysis

A. Overview

Roseville performed its lead lag study based on the twelve month period ended December, 1994. As explained further below, this study conformed with all applicable Commission requirements and industry mandated guidelines. Roseville used the Telecommunications Consulting Group of Ernst & Young, an internationally recognized accounting firm, to perform this study. Work papers from the study are included as Attachment A. This study, based on Roseville's specific operating conditions, produced a net lag of approximately 49 days which, when multiplied by Roseville's allowable cash operating and tax expenses, in turn produced a reasonable and representative assessment of Roseville's interstate cash working capital needs.

Roseville's lead lag study involved an analysis to determine the lag for revenues, operating expenses and taxes. The impact of the size of the collection or payment was considered by weighting the number of days with the associated dollars. This weighting was accomplished by using one of two methods -- the Dollar Day Analysis or the Balance of Account Analysis -- both of which were performed as appropriate in Roseville's study.

- Dollar Day Analysis. The most prevalent method used in this study was the Dollar Day Analysis, which involved a detailed study of the lag for each receipt or payment. This method assigns weightings to collections or payments by multiplying the dollar amounts for the different types of collections or payments by the respective number of lag days. See Attachment A, Schedule 4, for an illustration of the Dollar Day Analysis.

- Balance of Account Method. When a dollar day analysis was not practical, due to the difficulties in matching specific payments received to services provided, a study based on the sum of the daily clearances for an account was used for portions of the revenue lag studies. The equivalent dollar days were determined by analysis of the multiple appearances of an outstanding item in the balances.[4] As shown in the example, Table 1 below, this method produces essentially the same results as the Dollar Day Analysis. See Attachment A, Schedule 5-1 through 5-3 for an illustration of the Balance of Account Method.

Table 1
Methods of Deriving Lag Days
(Figures and Intervals Hypothetical)

	Balance of Account Method		Dollar Day Method	
Date of Month	Accounts Receivable Balance	Daily Payments	Days Weighted	Dollar Days
(a)	(b)	(c)	(d)	(e)
1	1,000		-	-
2	750	250	1	250
3	450	300	2	600
4	300	150	3	450
5	0	300	4	1,200
Totals	2,500	1,000	-	2,500

Both methods arrive at the same number of lag days, 2.5 (dividing column b by c; dividing column e by c).

[4] The balance of account method is simply a variation of the "account turnover" method that describes how often a balance sheet account turns over in one year. The only difference is that the result is expressed in terms of days instead of years.

Prepayments and Postpayments. Certain expense items in Roseville's income statement for a given period were actually paid by a cash disbursement in a period prior to when they were charged to expense. Conversely, some items were included in a current period but not paid for by a cash disbursement until a later period. Prepayments resulted in negative expense lags (leads) and postpayments resulted in positive expense lags.

The basic study objective was to analyze all components of the income statement in order to determine when the revenues and expenses represented were actually collected or paid. The periods measured were (1) from the payment date in advance, to the midpoint of the period for which the revenues or expenses applied and (2) from the payment date in arrears to the endpoint of the service period plus the number of days representing the midpoint of the service period. For payments applicable to the entire month, the midpoint of that month was used as a measuring point. For payments applicable to shorter terms such as payroll, the midpoint was the payroll period to be used.

If it was determined that the cash payment, related to an expense item in the study period, covered costs not only for the study period, but also beyond the study period, only that part of the payment which was applicable to the study period and its average service period were applied in order that the calculation produce a representative lag figure.

In the revenue lag study, positive lag day values meant that there was a delay in the receipt of revenues measured from the midpoint of the service period. Unless offset by positive operating expense or tax payment lags, the positive revenue lag created a need for investor-supplied cash working capital. A negative revenue lag day (bracketed amount) indicated a prepayment of revenues based on the midpoint of the service period.

In the operating expense lag or tax lag study, positive lag day values meant that there was a delay in the payment of operating expenses or taxes measured from the midpoint of the service period. This condition offset the need for cash working capital. A negative lag day value (bracketed amount) indicated a prepayment of operating expenses or taxes measured from the midpoint of the service period. This condition required cash working capital from Roseville's investors unless offset by revenues received as prepayments.

Measuring Standards. The time of payment for all items was considered to be the end of the day on the date paid. Measurements were based on calendar days, not work days. The term "revenue period" or "service period" refers to the span of time over which revenues were earned. The term "expense period" or "service period" refers to the span of time over which an expenditure was incurred.

On certain schedules, the computation of these intervals was simplified by assigning Julian dates to transactions. Julian dates represent the elapsed number of days since January 1, 1900 as a whole value, i.e., January 10, 1900 equals day 10 and December 31, 1993 equals day 34,334.

B. Revenues

1. General

Revenue lag is the average interval in days between the time services were rendered and the date collections for such services were deposited in the bank. Roseville used the following specific procedures to determine the revenue lag component of cash working capital.

A separate lag was developed for each of the following categories of revenues:

a. Revenues from Carrier Access Bills (CABS),
b. National Exchange Carrier Association (NECA) interstate revenue settlements, (including initial, interim and final adjustments)
c. Revenues from subscribers (end users), and
d. Revenues from other sources (miscellaneous).

A three-month equivalent study period was used in order to minimize fluctuations in billing and collecting data and to develop accurately a lag for each of the revenue categories. Each revenue and expense source was analyzed separately to determine a representative and normal sample period within the overall study period, thus eliminating any abnormal events which would effect cash working capital needs in either direction. The results of all these analyses were then converted to a comparable three-month period in order to state them all on an equivalent basis.

Four separate time periods were considered in determining the total time lag for each of the four revenue categories listed above:

a. "Service midpoint to end of service period" is the average date service is rendered to the end of the service period;

b. "End of service period to billing extraction" is the time from the end of the service period to the date on which billing is generated;

c. "Billing extraction to collect" is the period of time from the date on which billing is generated to the date on which payment is received; and

d. "Collect to deposit" is the period of time from the date a payment is received until the date on which it is deposited in a bank.

2. Revenues from Carriers

Roseville bills interexchange carriers for access to Roseville's local exchange network. Using the data from the Carriers Access Billing System, the revenue lag

associated with providing service to AT&T, as well as other common carriers ("OCCs"), was calculated.

For AT&T, the CABS bills were analyzed using the dollar-day approach described above. It was necessary to analyze the CABS bills in two categories:

a. Carrier Common Line (CCL) and Traffic Sensitive (TS) revenues (excluding special access), which were billed in arrears; and

b. Special access only, which was billed in advance.

As shown on Attachment A Schedule 3, this analysis yielded 50.09 lag days for AT&T, CCL, 50.18 lag days for AT&T TS, and 20.29 lag days for AT&T special access.

For OCCs, the balance-of-account method described above was used. This method was chosen due to the large number of carriers and their widely varying payment habits. The result of this analysis, 85.33 lag days, is identified on Attachment A Schedule 5-3.

3. NECA Interstate Revenue Settlements

The lag for NECA interstate settlements was determined directly by comparing the midpoint of the service month with the date of settlement payment. Initial, interim and final adjustments arising due to settlement of interstate revenue requirements during the two-year window for cost study closure associated with NECA pooling arrangements, were analyzed. NECA Forms EC2053 and EC3050 were analyzed using the dollar-day approach described above to produce a net lag of 82.44 days as identified on Attachment A Schedule 6.

4. Revenues from Subscribers (End User Common Line)

The revenue lag for billing to end users was determined by analyzing the daily accounts receivable balances and bank deposits for a three-month study period following

the balance-of-account method described above. The daily accounts receivable balances billed were divided by the amounts collected in order to determine the collection lag.

The billed revenue lag of 16.89 days is detailed on Attachment A Schedules 7.

5. Explanation of Revenues Lags Greater Than 45 Days

In its Designation Order, the Commission's Staff directed Roseville to explain "any category of revenue with a lag in excess of 45 days...". In Roseville's lead lag study, revenue items with lags in excess of 45 days were as follows:

- Miscellaneous (Feature Group B) - 61.63 days. These are revenues that are reported and paid to Roseville by Pacific Bell for the billing and settlement of Feature Group B interstate revenues. These revenues are earned in one month, reported to Roseville on the or about the 25th day of the next month, with actual cash flow occurring by wire transfer on the 11th work day of the third month. This process entails a 15 day lag attributable to the midpoint service measurement of the month during which service is rendered, an approximately 25 day lag from service endpoint for reporting by Pacific Bell, with the remaining days lag attributable to the time elapsed from reporting to payment deposit. The lag time for this revenue item is not unique to Roseville since the timing for this process is the same for all California companies that settle Feature Group B revenues with Pacific Bell. This item accounted for less than one-half of one percent (.32) of Roseville's total interstate dollars of revenue.
- AT&T Switched (Carrier Common Line - 50.09 days; Traffic Sensitive - 50.18 days. In order to calculate the revenue lag for network access service provided to AT&T, Roseville analyzed data from the Carrier Access Billing System, using the Dollar

Day Approach for each month of the eleven month sample period. The results of this analysis yielded a net lag of just over 50 days, representing the average number of days equal to the midpoint of each month of service rendered plus the average number of days from the endpoint of each month of services to the dates collections were deposited by wire transfers from AT&T. The resulting net lag represents the sum of the midpoint service period (13.5 to 15.5 days) and the end of service period to the actual payment dates (32 to 37 days). This lag time is not unique to Roseville since the timing of this process is consistent with the terms for most billing which allows the recipient of service 30 days from the bill date to pay for the service. AT&T most often pays at the end of the 30-day term. This item accounted for 20.7% of Roseville's interstate revenue.

- OCC Switched (Carrier Common Line and Traffic Sensitive) -- 85.33 days. For OCCs, the Balance of Account Method was utilized to calculate revenue lag due to the large number of carriers in this category to whom Roseville rendered service and the sporadic nature of their payment history during the study period as well as prior periods. The results of this analysis yielded a net lag in receipt of revenue of 85.33 days.

  This lag represents the sum of the average days' midpoint of each service period (15.2 days), plus the average days from the end of service period to actual billing extract (10 days), plus the equivalent dollar days based on the multiple appearances of an outstanding item in the account balance (58.23 days), and, because the OCC carriers pay by check, the average days from check receipt to check deposit (1.9 days). Due to the number of OCC carriers involved, Roseville

studied three consecutive months within the overall cash working capital period ended December 1994. Review of the remaining months, as well as prior cash working capital study periods confirms that the three month period was representative of Roseville's OCC experience and rendered representative results for Roseville. The longer revenue lag for OCC revenues, in contrast to revenues from AT&T, is attributable to the more sporadic payment history of most OCCs, and to their manner of payment. Roseville can only assume that the payment history of these OCCs is consistent with their payment history with other LECs. This item accounted for 16% of Roseville's interstate revenue.

- NECA Common Line Settlement - 82.44 days. These revenues represent the revenues earned from participation in the NECA Common Line Pool (including long term support, universal service and lifeline) and accounted for 36% of Roseville's interstate revenues. The NECA Pool was established in 1983 as required by the Commission to develop interstate access tariffs, administer access revenue pools and distribute settlements for all participating parties. Initial NECA settlements (Form EC3050) and interim and final NECA settlements (Form EC2053) were analyzed using the Dollar Day Approach producing the composite net lag time of 82.44 days.

  Roseville determined the lag in NECA interstate settlements first by comparing the midpoint of each service month within the cash working capital study period with the date of initial payment receipt therefor on the last day of each succeeding month by wire transfer. This lag time represents the sum of the midpoint of each service period (13.5 to 15.5 days) plus the time elapsed from end of service to the actual

payment dates for the service months (27.5 to 30.5 days). NECA wires settlement payments on the last work day of each month following the service month in question. This portion of the lag time is not unique to Roseville as all companies participating in the NECA pools receive payments in the same manner.

Roseville also compared the midpoint of each service month with the dates of interim NECA true-ups, which can occur on the last day of each succeeding month of the year with the normally most significant such true-up occurring early in the following calendar year upon generation of pre-audit financials for the year in which the service month occurred. The lag time for final adjustments is determined in the same manner; however, actual final settlement for a particular service month can occur up to 24 months (or 730 days) following the month of service. Combining all these results of the payment stages, weighted by the dollars involved in each, produced the composite net NECA lag for the study period of 82.44 days. Again, this process is not unique for Roseville as all participating companies settle first on preliminary estimated cost data, true that data up during the year based on actual cost data, and continue to make adjustments as needed to finalize settlement with respect to the service period. The only difference between companies' lag time would be the result of how significant the changes from preliminary estimates to final cost data are. However, a change in cost data for any one company will and does have an impact on each and every Pool member's final settlement for any given service month.

Thus, these settlement provisions (and the related financial results) are not simply internal to the Pool and its members. The NECA settlement process results from

the operation of effective procedures (1) established in accordance with the Commission's Rules and Regulations, and (2) designed to split Pool revenues among Pool members in accordance with actual rather than estimated costs. Mathematically, if settlement were based solely on actual costs with no initial monthly settlements, cash working capital needs would be far greater and the fact that the date of settlement would always follow the twelve month period under study by many months would be irrelevant to the proper calculation of cash working capital.

Roseville has reviewed the actual NECA settlement process respecting the twelve-month period of the cash working capital study and has determined that the composite NECA net lag figure of 82.44 days is (1) representative of Roseville's current experience according to the NECA settlement procedures, and (2) is representative of actual results experienced in the twelve month study period on which Roseville's cash working capital study has been based.

6. Revenue Lag

One final lag was calculated which consolidated all of the revenue categories discussed above for input to the lead/lag day calculation. The lags calculated for the various revenue categories were weighted by the amount of revenue in that category in order to arrive at one revenue lag, the 59.33 days calculated on Attachment A Schedule 1.

C. Expenses

1. General

Expense lag is the average interval in days between the time services are received and the date Roseville pays for such services. This section outlines the procedures followed to determine the expense lag component of Roseville's cash working capital.

A separate lag was developed for each of the following categories of expenses:

a. Vendors (Accounts Payable) including rents, meals, subscriptions, contract labor and other
b. Payroll - including salaries/wages, benefits
c. Taxes - including federal income tax, state income tax, property and other taxes
d. Prepaid Expenses
e. Fixed Charges

2. Vendor Analysis (including meals, rents, subscriptions, contract labor and other)

To determine the lag days for expenses associated with meals, rents, subscriptions and outliers, the dollar day approach described above was used. Attachment A Schedules 13-1 and 13-2 reflect the expense lead of (7.10) days for meals, Schedule 12 reflects lead days of (18.82) for rents, Schedules 14-1 and 14-2 reflects lead days of (233.99) for subscriptions, and Schedule 16 reflects lag days of 49.3 for contract labor.

To determine the lag days associated with the "Other" accounts in the Part 32 matrix, a random sample analysis of the annual accounts payable vouchers was performed. Any expenses analyzed separately elsewhere were excluded from the analysis. A confidence level which exceeded 90 percent was used to determine the sample selected. Once the sample was selected, the dollar-day approach described above was used to analyze the data. The Vendor Analysis yielded the composite expense lag of 18.47 days noted on Attachment A Schedules 15-1 through 15-3.

3. Payroll and (salaries/wages and benefits)

The payroll lag was the composite interval in days between the midpoint of the pay periods to which the salary and wage payments were applicable and the various dates of remittance of the amounts deducted and the date of the net payment to the employees. Payroll lag was based on wage and salary payments made through the payroll system.

A study of payroll periods for a calendar quarter was necessary in order to provide a representative number of pay days by type, and to give proper weight to each. The Dollar-Day approach described above was used to record the net payroll, deductions, and remittance dates during the study period. A separate set of forms was used for each payroll type. Payroll types included:

-Net Payroll
-Payroll Taxes
    -Employee Social Security
    -FIT withholding
    -SIT withholding
    -Disability Taxes
-Charitable Donation withholding
-Medical Insurance
-Life Insurance
-Savings Plan withholding
-Sick Leave
-Workers Compensation (disability)

The data for the various payroll types were consolidated on Attachment A Schedule 11 in order to compute the composite weighted payroll lag of 11.50 days and composite weighted benefit lag of 16.09 days.

4. Taxes

The dollar-day method described above was used for each tax analysis: Federal Income Tax; State Income Tax and Property Tax. Attachment A Schedule 18 displays the results for FIT of 15.46 lag days and SIT of 8.99 lag days. Attachment A Schedule 19

displays the results for Property Tax of 31.66 lag days (the Property Tax lag is addressed in section 7, below).

Federal and State Income Taxes - The tax expense lag studies reflect the actual payment history, including the payment of estimated taxes, with respect to the twelve-month period ended December 1993. This period was used in order to reflect the actual tax impact of the most recent twelve-months in the lead lag study.

Roseville's current lead lag study was completed in the first quarter of 1995. Roseville had to complete this lead lag study within its 1995 annual access tariff filing which was due on May 15, 1995. Accordingly, Roseville did not have a full tax history of the entire 1994 period and therefore used the 1993 tax payment history as a reasonable surrogate for the 1994 period. The leads and lags were analyzed in the standard way, resulting in a net federal income tax lag of 15.46 days and net state income tax lag of 8.99 days.

As shown on Schedule 18, the payments analyzed include overpayments applied to the following year. The Commission, in its 1993 Access Tariff Order, rejected Roseville's use of overpayments of federal and state income taxes in its then calculated lead lag study. Roseville objected to the Commission's ruling on this matter as overpayments of federal and state income taxes can arise in the ordinary course of doing business. Federal tax law in 1994 required that companies, like Roseville, pay 100% of their expected tax. If a company fails to pay 100% of its tax liability, it will incur tax penalties which will increase its operating cost and increase charges to recover this cost. The result is that Roseville makes every effort to avoid incurring penalties for underestimation of taxes which are due on a quarterly basis. Further, Roseville's quarterly